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FY2020 Q1 Financial Highlights

	For the three months ended		
	June 30	March 31	June 30
($ in thousands)	**2019**	2019	2018
Operating results			
Net interest income	**$ 299,023**	$ 297,106	$ 296,781
Other income	**134,847**	124,060	115,243
Operating revenue	**433,870**	421,166	412,024
Provision for loan losses	**66,088**	165,508	50,322
Non-interest expenses	**308,395**	307,392	287,207
Net income (loss) before payment in lieu of tax	**59,387**	(51,734)	74,495
Payment in lieu of tax	**13,608**	(11,880)	17,199
Net income (loss)	**$ 45,779**	(39,854)	$ 57,296
Income before provision for loan losses[1]			
Operating revenue	**$ 433,870**	$ 421,166	$ 412,024
Less: non-interest expenses	**(308,395)**	(307,392)	(287,207)
Income before provision for loan losses	**$ 125,475**	$ 113,774	$ 124,817
Financial position *($ in thousands)*			
Net loans	**$ 46,528,192**	$ 47,005,724	$ 45,110,251
Total assets	**$ 54,196,662**	$ 54,344,151	$ 53,332,092
Total risk-weighted assets	**$ 36,940,516**	$ 37,441,480	$ 35,831,982
Total deposits	**$ 36,097,811**	$ 35,921,949	$ 34,453,566
Equity	**$ 3,723,773**	$ 3,644,117	$ 3,426,124
Key performance measures *(%)*			
Return on average assets	**0.34**	(0.30)	0.44
Return on average risk-weighted assets	**0.51**	(0.43)	0.64
Operating revenue growth[2]	**5.3**	2.1	11.0
Other income to operating revenue	**31.1**	29.5	28.0
Operating expense growth[2]	**7.4**	(3.9)	7.2
Efficiency ratio	**71.1**	73.0	69.7
Net interest margin	**2.29**	2.28	2.33
Loan losses to average loans	**0.57**	1.4	0.45
Net loan change[3]	**(1.0)**	(0.10)	2.3
Total deposit change[3]	**0.49**	-	5.4
Change in assets under administration[3]	**7.1**	6.2	3.7
Tier 1 capital ratio[4]	**10.0%**	9.8	10.0
Total capital ratio[4]	**15.4%**	15.0	15.0
Other information			
ATB Wealth assets under administration *($ in thousands)*	**20,722,688**	20,311,402	19,355,357
Total customers	**771,784**	768,955	756,690
Team members[5]	**5,773**	5,665	5,459

(1) A non-GAAP (generally accepted accounting principles) measure, is defined as operating revenue less non-interest expenses.
(2) Measures are calculated by comparing current quarter balances against the same quarter of the previous year.
(3) Measures are calculated by comparing current quarter balances against the prior quarter. The year-to-date measures are calculated by comparing current year balances against balances at March 31, 2019.
(4) Calculated in accordance with the Alberta Superintendent of Financial Institutions (ASFI) capital requirements guidelines.
(5) Number of team members includes casual and commissioned.

Caution regarding forward-looking statements
This report may include forward-looking statements. ATB from time to time may make forward-looking statements in other written or verbal communications. These statements may involve, but are not limited to, comments relating to ATB's objectives or targets for the short and medium term, strategies or actions planned to achieve those objectives, targeted and expected financial results, and the outlook for operations or the Alberta economy. Forward-looking statements typically use the words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," or other similar expressions or future or conditional verbs such as "could," "should," "would," or "will."

By their very nature, forward-looking statements require ATB's management to make numerous assumptions and are subject to inherent risks and uncertainties, both general and specific. A number of factors could cause actual future results, conditions, actions, or events to differ materially from the targets, expectations, estimates, or intentions expressed in the forward-looking statements. Such factors include, but are not limited to: changes in legislative or regulatory environment; changes in ATB's markets; technological changes; changes in general economic conditions, including fluctuations in interest rates, currency values, and liquidity conditions; and other developments, including the degree to which ATB anticipates and successfully manages the risks implied by such factors.

ATB cautions readers that the aforementioned list is not exhaustive. Anyone reading and relying on forward-looking statements should carefully consider these and other factors that could potentially have an adverse effect on ATB's future results, as there is a significant risk that forward-looking statements will not prove to be accurate.

Readers should not place undue reliance on forward-looking statements, as actual results may differ materially from plans, objectives, and expectations. ATB does not undertake to update any forward-looking statement contained in this report.

This is management's discussion and analysis (MD&A) of the consolidated results of operations and financial position of ATB Financial (ATB) for the three months ended June 30, 2019, and is dated August 15, 2019. The MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes for the period ended June 30, 2019, as well as the audited consolidated financial statements and MD&A for the year ended March 31, 2019.

Economic Outlook

Alberta's Economy at a Glance

	Calendar year		
	2019	2020	2021
Real GDP growth (annual % change)	0.7	1.6	1.8
Consumer price index (annual % change)	1.6	1.7	1.5
Unemployment rate (%)	6.9	6.7	6.5
Exchange rate (Cdn$1 / US$1)	0.75	0.76	0.77
Bank of Canada overnight lending rate (%)	1.75	2.00	2.50

Alberta's economy grew by 2.3% in 2018, but ATB's most recent forecast projects an increase in real GDP of just 0.7% in 2019 followed by 1.6% in 2020. The sluggish growth is due to oil production limits, soft capital investment in the oil patch, and the negative spillover effects of both on other sectors.

Alberta's Economic Challenges

Although benchmarks for both West Texas Intermediate and Western Canadian Select have improved, along with the federal government approving the TransMountain pipeline project for a second time and production limits being loosened, investment in the energy sector will continue to be dampened until there is more certainty regarding the transportation challenges. AECO-C natural gas prices are expected to remain low in 2019.

The number of jobs in the province has surpassed the pre-recession peak, but job creation has not kept up with population growth. As a result, the unemployment rate is still high and remains above the Canadian average.

Despite the slower pace of growth, the ongoing lack of sufficient pipeline capacity and global economic uncertainty, Alberta's economy and population are still growing. Manufacturing and retail sales have been rising, and net interprovincial migration has returned to positive territory. With that said, the delay of the Enbridge Line 3 pipeline replacement project, along with the passing of Bills C-48 and C-69 are setbacks for the energy sector. Lastly, trade disputes continue to adversely affect the outlook for both the provincial and national economies.

Net Income

For the quarter ended June 30, 2019, ATB earned net income of $45.8 million, a $85.6 million (214.9%) increase from the previous quarter, driven by lower provision for loan losses. Compared to the same time last year, despite growing revenues we had a decrease in net income of $11.5 million (20.1%) with provision for loan losses increasing as our business customers continue to be impacted by the weaker economy.

ATB's net contribution to the Government of Alberta, comprised of net income, ATB's portion of payment in lieu of taxes, and deposit guarantee fee for the quarter, was $73.9 million, an increase of $113.3 million (109.1%) from last quarter. Compared to the same quarter last year, net contribution decreased $13.9 million (10.3%).

Income before provision for loan losses this quarter is $125.5 million, a $11.7 million (10.3%) increase from last quarter, and is consistent with the same time last year. The quarterly increase is driven by our continued focus to grow non-interest sources of income.

Operating Revenue

Total operating revenue consists of net interest income and other income. We ended the quarter at $433.9 million, achieving a new record, with net interest income contributing $299.0 million and $134.9 million from other income. This represents an increase of $12.7 million (3.0%) from last quarter and $21.8 million (5.3%) from the same quarter last year, primarily driven by our other income. As our net interest margin remains compressed, we've focused on growing our non-interest revenue, with wealth management, foreign-exchange, and capital markets revenue leading the way.

Net Interest Income

Net interest income represents the difference between interest earned on assets, such as loans and securities, and interest paid on liabilities, such as deposits, wholesale, and collateralized borrowings. Net interest income was $299.0 million this quarter, higher than both last quarter and this time last year as loan rates are higher as a result of the prime rate increases. Since last year, balance sheet growth also favourably contributed; however, it came at a cost, as we've had to pay more on deposits to not only attract customers, but remain relevant in the competitive environment.

Net Interest Margin

Net interest margin is the ratio of net interest income to average total interest-earning assets for the period. This is an important measure to ATB as it measures how profitable our banking business is. For the quarter ended June 30, 2019, net interest margin was 2.29%, higher than the 2.28% attained last quarter, but lower than the 2.33% achieved during the same quarter last year, with both changes driven by the factors previously noted.

Net Interest Income

	For the three months ended					
	June 30, 2019 vs. March 31, 2019			June 30, 2019 vs. June 30, 2018		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
($ in thousands)	**volume**	**rate**	**Net change**	volume	rate	Net change
Assets						
Interest-bearing deposits with financial institutions, and securities	**$ 503**	**$ (5,539)**	**$ (5,036)**	$ (2,698)	$ 1,195	$ (1,503)
Loans	**(3,203)**	**12,610**	**9,407**	20,444	33,885	54,331
Change in interest income	**(2,700)**	**7,071**	**4,372**	17,746	35,080	52,828
Liabilities						
Deposits	**(181)**	**3,268**	**3,087**	8,016	40,673	48,689
Wholesale borrowings	**(2,319)**	**1,618**	**(703)**	(6,926)	3,272	(3,654)
Collateralized borrowings	**708**	**(143)**	**565**	2,655	2,631	5,286
Securities sold under repurchase agreements	**(475)**	**(3)**	**(478)**	-	287	287
Subordinated debentures	**14**	**(33)**	**(19)**	3	(27)	(24)
Change in interest expense	**(2,253)**	**4,707**	**2,454**	3,748	46,836	50,584
Change in net interest income	**$ (447)**	**$ 2,364**	**$ 1,917**	$ 13,998	$ (11,756)	$ 2,242

Other Income

Other income consists of all operating revenue not classified as net interest income. ATB earned $134.8 million this quarter, which is $10.8 million (8.7%) higher than last quarter. This is primarily driven by foreign-exchange revenue from the strengthening Canadian dollar and capital markets revenue with a large deal closed by AltaCorp this quarter. We've been able to generate more income from almost all of our non-interest income sources compared to this time last year, a testament to our focus on diversifying our revenue sources.

Credit Quality

The provision for loan losses is recorded to recognize the net of write-offs, recoveries, and required changes to the allowance for Stage 1, 2, and 3 loans over the quarter. This quarter's $66.1 million provision not only highlights Alberta's economic uncertainty and current challenges but also continues to reflect the struggles our customers have faced post-recession, as a number of high-dollar energy customer accounts became impaired, along with the entire loan portfolios' credit quality deteriorating.

Although this quarter's provision is high as our non-retail portfolio continues to struggle, it has decreased significantly from last quarter when we had the highest provision after the recession. Since this time last year as Alberta's economic outlook has worsened, we have a Stage 1 and 2 provision compared to last year's recovery.

Despite the trying times our customers continue to face, management remains confident in the overall quality of the portfolio, supported by our strong credit and loss-limitation practices, and continues to support our customers where we can. As at June 30, 2019, gross impaired loans of $973.1 million comprise 2.1% of the total loan portfolio (March 31, 2019: 2.0%, June 30, 2018: 1.5%).

Non-Interest Expenses

Non-interest expenses consist of all expenses except for interest expenses and the provision for loan losses. This quarter's total non-interest expenses are $308.4 million, up slightly from last quarter, as we've spent more on team members and less on external experts as we consciously manage our spending. Last quarter also included more donation, sponsorship, and promotion costs.

Compared to the same quarter last year, non-interest expenses are up by $21.2 million (7.4%), primarily due to salaries as we grow our team member base (5.8%) to support the launch of Brightside and transitioning to in-house solutions as we invest in delivering remarkable customer experience. We also incurred higher expenses for incentives and severances.

The efficiency ratio is calculated by dividing non-interest expenses by operating revenue and measures how much it costs ATB to generate revenue. A lower ratio is indicative of higher efficiency at generating income. For the quarter ended June 30, 2019, ATB reported an efficiency ratio of 71.1% compared to 73.0% last quarter, and 69.7% for the same period last year. The improvement from last quarter came from growing revenue by 3.0%, without increasing our expenses. When compared to the same quarter last year, while operating revenue grew, it was overshadowed by our expenses growing at a faster rate, due to the drivers noted above.

Review of Business Segments

ATB has organized its operations and activities around the following five areas of expertise:

- **Everyday Financial Services** provides service and support for all personal and digital business customers through our retail branches, agencies, entrepreneur centres, mortgage and broker services, and Client Care (call centre) distribution channels.
- **Business and Agriculture** provides financial services to independent business and agricultural customers.
- **Corporate Financial Services** provides financial services to mid-sized and large corporate borrowers.
- **ATB Wealth** provides wealth management solutions, including retail brokerage, mutual funds, portfolio management, investment advice, and private banking.
- **AltaCorp Capital Inc.** provides advisory and institutional financial services, including corporate mergers and acquisitions, equity financings, debt capital markets, acquisitions and divestitures, equity research and sales and trading.

Everyday Financial Services (EFS)[1]

	For the three months ended		
($ in thousands)	**June 30 2019**	March 31 2019[2]	June 30 2018[2]
Net interest income	**$ 122,965**	$ 109,117	$ 111,216
Other income	**27,378**	24,506	21,196
Operating revenue	**150,343**	133,623	132,412
Provision for loan losses	**14,717**	19,255	1,087
Non-interest expenses	**139,633**	128,251	127,187
Net (loss) income	**$ (4,007)**	$ (13,883)	$ 4,138
Total assets	**$ 23,950,252**	$ 23,344,544	$ 22,168,317
Total liabilities	**$ 14,536,689**	$ 12,845,125	$ 12,195,639

(1) Effective June 26, 2019, Retail Financial Services announced a new name, Everyday Financial Services (EFS), to describe the changing work and focus of this group.
(2) Effective April 2019, EFS includes ATB 360 (approx. 60,000-plus customers with personal and digital business banking needs served through entrepreneur centres, mortgage and broker services, and Client Care (call centre) distribution channels). Results for the three months ended March 31, 2019, and June 30, 2018, were not restated to include ATB 360. ATB 360 was previously reported under B&Ag.

Although EFS has maintained its loan and deposit growth from last year, increased expenditures overshadowed the revenue growth and led to a net loss this quarter. Compared to the same time last year, while operating revenue outpaced expense growth, a higher provision for loan losses drove the significant decrease in net income.

Operating revenue increased by $16.7 million (12.5%) from last quarter and by $17.9 million (13.5%) from the same time last year due to the business generated this quarter from ATB 360, which handles all banking services for entrepreneurial Albertans at their convenience.

EFS had a lower provision for loan losses this quarter, as last quarter included a few high-dollar impairments. When compared to the same quarter last year, the provision has increased significantly due to both the economic outlook and portfolio quality deteriorating.

Non-interest expenses increased by $11.4 million (8.9%) from last quarter and by $12.4 million (9.8%) from the same time last year, as both came from higher corporate allocations, offset by lower general and administration and professional costs..

Loan and deposit balances have increased as a result of ATB 360. In addition, deposits have increased $2.2 billion from last year, largely due to EFS's Deposit Yourself Here campaign, attractive rates for customers depositing large balances, and EFS's continued focus on deepening customer relationships.

Business and Agriculture (B&Ag)

	For the three months ended		
($ in thousands)	**June 30 2019**	March 31 2019(1)	June 30 2018(1)
Net interest income	**$ 70,252**	$ 81,526	$ 83,416
Other income	**16,058**	20,350	20,597
Operating revenue	**86,310**	101,876	104,013
Provision for loan losses	**18,530**	59,376	14,847
Non-interest expenses	**57,045**	68,645	67,221
Net income (loss)	**$ 10,735**	$ (26,145)	$ 21,945
Total assets	**$ 7,293,757**	$ 7,774,939	$ 7,792,393
Total liabilities	**$ 7,279,485**	$ 9,133,732	$ 9,315,761

(1) Effective April 2019 results for B&Ag excludes ATB 360. Results for the three months ended March 31, 2019, and June 30, 2018, were not restated to exclude ATB 360. ATB 360 is now reported in EFS.

B&Ag generated net income this quarter compared to a net loss last quarter, but net income is $11.2 million (50.1%) lower than this time last year. The quarterly improvement is driven by lower corporate allocations and a significant reduction in the provision for loan losses. The year over year decrease is primarily driven by ATB 360's revenue being reported under EFS this quarter.

Operating revenue for the quarter decreased by $15.6 million (15.3%) from last quarter, and by $17.7 million (17.0%) from the same time last year, both as a result of the ATB 360 change.

The provision for loan losses highlights the volatility and struggles B&Ag's small- to medium-sized customers are facing. This quarter saw fewer impairments than last quarter and this time last year, that led to a lower, but still high, Stage 3 provision. Alberta's economic outlook is still uncertain and led to a Stage 2 provision recorded this quarter. It is, however, lower than last quarter, but much higher than the recovery experienced at this time last year.

Non-interest expenses decreased $11.6 million (16.9%) from last quarter, and by $10.2 million (15.1%) from the same time last year. Both decreases are driven by lower corporate allocations.

Loans and deposits remain consistent with last quarter excluding the changes related to ATB 360.

Corporate Financial Services (CFS)

	For the three months ended		
($ in thousands)	**June 30 2019**	March 31 2019	June 30 2018
Net interest income	**$ 82,112**	$ 78,288	$ 85,516
Other income	**20,050**	22,340	18,360
Operating revenue	**102,162**	100,628	103,876
Provision for loan losses	**32,208**	85,534	34,388
Non-interest expenses	**35,128**	39,111	32,444
Net income (loss)	**$ 34,826**	$ (24,017)	$ 37,044
Total assets	**$ 14,308,254**	$ 14,036,096	$ 13,463,720
Total liabilities	**$ 10,926,707**	$ 10,741,203	$ 10,515,734

CFS's net income had a significant turnaround from last quarter's net loss, mainly driven by lower provision for loan losses as well as reduced spending. Compared to the same time last year, net income decreased $2.2 million (6.0%) as net interest income fell along with higher corporate allocations expenses.

By attracting new customers and earning more loan interest income, CFS grew operating revenue by $1.5 million (1.5%). This was partially offset by lower credit fees, driven by fewer unfunded loan commitments. When compared to the same quarter last year, operating revenue is down $1.7 million (1.7%), attributed to the lower net interest income previously noted.

Last quarter was an anomaly for CFS, as a number of high-dollar customers felt the impact of Alberta's economic challenges, resulting in a large Stage 3 provision. While CFS's provision for loan losses remains high, it has decreased $53.3 million (62.3%) from last quarter and is $2.2 million (6.3%) higher than this time last year.

Non-interest expenses decreased $4.0 million (10.2%) from the previous quarter, primarily from lower incentive pay, but increased $2.2 million (6.0%) over the same quarter last year as CFS invests more in team members.

CFS has seen a slight change from last quarter for both their loan and deposit portfolio, ending the quarter at $13.9 billion and $11.3 billion, respectively. Both have increased compared to this time last year through not only successful attraction and retention of customers, but also from smart pricing and business practices.

ATB Wealth

	For the three months ended		
($ in thousands)	**June 30 2019**	March 31 2019	June 30 2018
Net interest income	**$ 4,737**	$ 4,647	$ 3,593
Other income	**55,667**	53,032	51,722
Operating revenue	**60,404**	57,679	55,315
Provision for loan losses	**633**	1,343	-
Non-interest expenses	**54,149**	52,931	50,346
Net income before payment in lieu of tax	**5,622**	3,405	4,969
Payment in lieu of tax	**3,616**	3,103	3,083
Net income	**$ 2,006**	$ 302	$ 1,886
Total assets	**$ 1,090,201**	$ 994,842	$ 814,770
Total liabilities	**$ 1,100,368**	$ 1,015,807	$ 844,269
Assets under administration	**$ 20,722,688**	$ 20,602,066	$ 19,355,357

Net income increased $1.7 million from last quarter, due to higher assets under administration (AUA) and a lower provision for loan losses. When compared to the same quarter last year, net income is slightly higher.

Operating revenue increased $2.7 million (4.7%) from the prior quarter, and increased $5.1 million (9.2%) from the same quarter last year. Both increases are again the result of ATB Wealth's AUA continuing to grow even though current market conditions are volatile.

Non-interest expenses increased $1.2 million (2.3%) from last quarter, and by $3.8 million (7.6%) from the same time last year, due to higher corporate allocations.

AUA increased slightly from the prior quarter, with approximately one-third of the increase pertaining to asset-gathering and the remainder driven by favourable market returns. AUA increased $1.4 billion (7.1%) from the same quarter last year, with just over half of the increase related to asset-gathering.

AltaCorp Capital Inc. (AltaCorp)

	For the three months ended		
($ in thousands)	**June 30 2019**	March 31 2019	June 30 2018
Net interest income (loss)	**$ 133**	$ 104	$ (33)
Other income	**6,898**	3,188	5,858
Operating revenue	**7,031**	3,292	5,825
Non-interest expenses	**9,967**	4,760	6,066
Net loss before income taxes	**(2,936)**	(1,468)	(241)
Income taxes (recovery)	**(634)**	(125)	64
Net loss	**$ (2,302)**	$ (1,343)	$ (305)
Total assets	**$ 26,571**	$ 42,334	$ 37,440
Total liabilities	**$ 20,011**	$ 34,182	$ 29,050

While operating revenue has grown, expenses have grown faster, resulting in a higher loss when compared to last quarter and this time last year.

AltaCorp's non-interest expenses have more than doubled since last quarter and are $3.9 million (64.3%) higher than this time last year. Both are driven by investing in team members to successfully close advisory deals, along with the payment of deferred compensation.

Operating revenue increased by $3.7 million from last quarter and $1.2 million from the same quarter last year. Both increases are the result of improving debt and equity markets, and a number of significant advisory mandates during the quarter that partially offset the increased expenses previously noted.

Statement of Financial Position

Total Assets

Assets are consistent with last quarter and ended the quarter at $54.2 billion. Compared to the prior year's first quarter; however, total assets are up $0.9 billion (1.6%), due to loan growth partially offset by a reduction in cash resources.

Loans

Net loans decreased $0.5 billion over the quarter, primarily driven by lower levels of activity as Alberta's economy continues to struggle. However, compared to the same quarter last year we have seen moderate growth in our commercial business and residential mortgage loans with total net loans $1.4 billion (3.1%) higher.

Total Liabilities

ATB has three principal sources of funding: deposits, wholesale, and collateralized borrowings.

Total liabilities stood at $50.5 billion for the quarter, a slight decrease from last quarter as we relied less on alternative sources to fund loan growth. Compared to the same quarter last year, total liabilities increased $0.6 billion (1.1%), with deposits the main driver, offset by lower wholesale borrowings.

Deposits

Deposits are $36.1 billion, consistent with last quarter and $1.6 billion (1.1%) higher than the same time last year. Both result from our obsessive-service culture as we continue to find ways to make banking work for our customers.

Wholesale Borrowings

Wholesale borrowings, consisting primarily of bearer-deposit and mid-term notes issued by the Government of Alberta, can fluctuate quarter to quarter. The agreement with the Government of Alberta currently limits the total volume of such borrowings to $7.0 billion. The balance this quarter is $3.4 billion, $0.3 billion (7.3%) lower than last quarter and $1.1 billion (24.8%) lower than the same time last year; due to our deposit growth, we relied less on wholesale borrowings to support our operations.

Collateralized Borrowings

Collateralized borrowings, also used to supplement customer deposits, represent ATB's participation in the Canada Mortgage Bonds (CMB) program, securitization of credit card receivables, and other mortgage loan securitization. As at June 30, 2019, balances were $8.7 billion, $0.3 billion (3.4%) lower than last quarter, but $0.1 billion (1.6%) higher than last year. The decrease from last quarter is due to deposit balances increasing, which reduces the need for funding through collateralized borrowings. The increase from last year comes from our ability to securitize more of our growing mortgage book.

Accumulated Other Comprehensive Income (AOCI)

Accumulated other comprehensive income includes unrealized gains and losses which are only recorded on the consolidated statement of operations when realized. AOCI increased compared to last quarter and the same quarter last year, with both mainly driven by the effective portion for our interest-rate-management products designated for hedge accounting. This was, however, slightly offset by our pension obligation experiencing an actuarial loss due to a change in discount rates and higher pension obligation.

Capital Management

ATB measures, manages, and reports capital to ensure that it meets the minimum levels set out by its regulator, the Alberta Superintendent of Financial Institutions, while supporting the continued growth of its business and building value for its owner.

As a Crown corporation, ATB and its subsidiaries operate under a regulatory framework established pursuant to the *ATB Act* and associated regulations and guidelines. The capital adequacy requirements for ATB are defined in a guideline authorized by the Government of Alberta's President of Treasury Board and Minister of Finance, which was modelled after guidelines governing other Canadian deposit-taking institutions. ATB's minimum Tier 1 capital requirement is 7.0%, and the total capital requirement is the greater of 10.0% of risk-weighted assets or 5.0% of total assets. As at June 30, 2019, ATB had a Tier 1 capital ratio of 10.0% and a total capital ratio of 15.4%, both exceeding our regulatory requirements.

In addition, ATB has established and maintains an Internal Capital Adequacy Assessment Process (ICAAP) Framework that complies with the Office of the Superintendent of Financial Institutions' (OSFI) guideline on ICAAP for Deposit-Taking Institutions. This ensures that ATB has adequate capital to meet its strategic and business objectives.

Credit Risk

Credit risk is the potential for financial loss in the event that a borrower or counterparty fails to repay a loan or otherwise honour their financial or contractual obligations. Credit risk typically poses the greatest inherent risk of financial loss to lending institutions and is further amplified for ATB given our concentration in Alberta. Examples of typical products bearing credit risk include retail and commercial loans, guarantees, and letters of credit.

Key measures as at June 30, 2019, are outlined below.

Total Credit Exposure

The amounts shown in the table below best represent ATB's maximum exposure to credit risk, which is primarily driven by loan balances changing (refer to note 5 for further details):

As at *($ in thousands)*	**June 30** **2019**	March 31 2019
Financial assets[(1)]	**$ 53,046,961**	$ 53,310,653
Other commitments and off-balance sheet items	**18,305,735**	19,309,154
Total credit risk	**$ 71,352,696**	$ 72,619,807

(1) Includes derivatives stated net of collateral held and master netting agreements.

Industry Concentration

ATB is inherently exposed to significant concentrations of credit risk, as its customers all participate in the Alberta economy which, in the past, has shown strong growth and occasional sharp declines. ATB manages credit through diversification of its credit portfolio by limiting concentrations to single borrowers, industries, and geographic regions of Alberta. The following table presents a breakdown of the three largest single-industry segments and single-largest borrower:

($ in thousands)		**June 30 2019 Percentage of total gross loans**		March 31 2019 Percentage of total gross loans
Commercial real estate	**$5,948,524**	**12.6%**	$6,087,599	12.8%
Agriculture, forestry, fishing, and hunting	**3,906,337**	**8.3%**	3,737,297	7.8%
Mining and oil and gas extraction	**3,805,327**	**8.1%**	3,426,250	7.2%
Largest borrower	**$109,075**	**0.23%**	$156,954	0.33%

Residential Real Estate Secured Lending

Residential mortgages and home equity lines of credit (HELOCs) are secured by residential properties. The following table presents a breakdown of the amounts and percentages of insured and uninsured residential mortgages and HELOCs:

As at *($ in thousands)*		**June 30, 2019**		March 31, 2019	
Residential mortgages	Insured[(1)]	**$ 7,430,442**	**45.4%**	$ 7,442,028	45.3%
	Uninsured	**8,945,683**	**54.6%**	8,996,711	54.7%
Total residential mortgages		**16,376,125**	**100.0%**	16,438,739	100.0%
Home equity lines of credit	Uninsured	**3,206,478**	**100.0%**	3,234,005	100.0%
Total home equity lines of credit		**3,206,478**	**100.0%**	3,234,005	100.0%
Total	**Insured**	**$ 7,430,442**	**37.9%**	$ 7,442,028	37.8%
	Uninsured	**$ 12,152,161**	**62.1%**	$ 12,230,716	62.2%

(1) Insured residential mortgages includes mortgages insured by CMHC, Genworth Canada, and Canada Guaranty Mortgage Insurance.

The following table shows the percentages of our residential mortgage portfolio that falls within various amortization period ranges:

As at	**June 30 2019**	March 31 2019
< 25 years	**83.8%**	83.1%
25–30 years	**16.0%**	16.6%
30–35 years	**0.2%**	0.3%
Total	**100.0%**	100.0%

The following table provides a summary of our average loan-to-value ratio for newly originated and acquired uninsured residential mortgages and HELOC products during the quarter:

As at	**June 30 2019**	March 31 2019
Residential mortgages	**0.69**	0.69
Home equity lines of credit	**0.55**	0.56

ATB performs stress testing on its residential mortgage portfolio as part of its overall stress-testing program to assess the impact of an economic downturn. Severe changes in house prices, interest rates, and unemployment levels are among the factors considered in our testing. ATB considers potential losses in its residential mortgage portfolio under such scenarios to be manageable given the portfolio's high proportion of insured mortgages and low loan-to-value ratio.

Market Risk

Market risk is the risk that ATB may incur a loss due to adverse changes in interest rates, foreign-exchange rates, and equity or commodity market prices. ATB's risk management practices and key measures are disclosed in note 24 to the consolidated financial statements for the year ended March 31, 2019, and the Risk Management section of the MD&A in the 2019 Annual Report.

A description of ATB's key market risks and their measurement as at June 30, 2019, are outlined below:

Interest Rate Risk

Interest rate risk is the risk of a negative impact on ATB's financial position due to changes in market interest rates. This risk occurs when there is a mismatch in the repricing characteristics of interest-rate-sensitive assets (such as loans and investments) and interest-rate-sensitive liabilities (such as deposits).

Interest Rate Sensitivity

The following table provides the potential impact of an immediate and sustained 100- and 200-basis-point increase and decrease in interest rates on ATB's net interest income as applied against ATB's core balance sheet over the following 12-month period:

As at *($ in thousands)*	**June 30 2019**	March 31 2019
Increase in interest rates of:		
100 basis points	**$ 40,057**	$ 38,645
200 basis points	**77,060**	75,765
Decrease in interest rates of:		
100 basis points[1]	**(54,805)**	(50,147)
200 basis points[1]	**(126,850)**	(117,534)

(1) Certain aspects of the decrease in interest rate scenarios are constrained by interest rate floors when appropriate.

The potential impact of a 100- and 200-basis-point change is well within our interest-rate-risk-management policy.

Foreign-Exchange Risk

Foreign-exchange risk is the potential risk of loss resulting from fluctuations in foreign-exchange rates. This risk arises from the existence of a net asset or liability position denominated in foreign currencies and/or a difference in maturity profiles for purchases and sales of a given currency. ATB manages its foreign currency exposure through foreign-exchange forward contracts. ATB is within its limit as at June 30, 2019.

Liquidity Risk

Liquidity risk is the risk that ATB may not meet all of its financial commitments quickly and at reasonable prices. ATB manages this liquidity risk to ensure it has timely access to cost-effective funds to meet its financial obligations as they become due, in both routine and crisis situations, by monitoring cash flows, diversifying our funding sources, stress testing, and regularly reporting our current and forecasted liquidity position.

ATB determines and manages its liquidity needs using a wide range of financial products and borrowing programs to ensure stable and well-diversified sources of funding.

On June 30, 2019, the liquidity coverage ratio (LCR) is 137.6% (March 31, 2019: 144.0%) well above board-approved minimum limits.

The estimated timing of cash outflows for ATB's sources of funding are as follows:

As at ($ in thousands)	**Within 1 year**	**1–2 years**	**2–3 years**	**3–4 years**	**4–5 years**	**Over 5 years**	**June 30 2019 Total**	March 31 2019 Total
Mid-term notes	**$ 199,861**	**$ -**	**$ -**	**$ -**	**$ 272,826**	**$ 1,581,403**	**$ 2,054,090**	$ 2,247,288
Bearer deposit notes	**1,301,807**	**-**	**-**	**-**	**-**	**-**	**1,301,807**	1,371,778
Mortgage-backed securities	**1,144,106**	**1,088,762**	**2,415,590**	**-**	**1,802,002**	**1,826,622**	**8,277,082**	8,580,829
Credit card securitization	**385,000**	**-**	**-**	**-**	**-**	**-**	**385,000**	385,000
Securities sold under repurchase agreements	**98,379**	**-**	**-**	**-**	**-**	**-**	**98,379**	-
Subordinated debentures	**98,177**	**32,298**	**45,038**	**81,063**	**41,612**	**-**	**298,188**	339,140
Total long-term funding	**$ 3,227,330**	**$ 1,121,060**	**$ 2,460,628**	**$ 81,063**	**$ 2,116,440**	**$ 3,408,025**	**$ 12,414,546**	$ 12,924,035
Of which are:								
Secured	**$ 1,627,485**	**$ 1,088,762**	**$ 2,415,590**	**$ -**	**$ 1,802,002**	**$ 1,826,622**	**$ 8,760,461**	$ 8,965,829
Unsecured	**1,599,845**	**32,298**	**45,038**	**81,063**	**314,438**	**1,581,403**	**3,654,085**	3,958,206
Total long-term funding	**$ 3,227,330**	**$ 1,121,060**	**$ 2,460,628**	**$ 81,063**	**$ 2,116,440**	**$ 3,408,025**	**$ 12,414,546**	$ 12,924,035

Interim Condensed Consolidated Statement of Financial Position

(Unaudited)

As at *($ in thousands)*	Note	**June 30 2019**	March 31 2019	June 30 2018
Cash		**$ 70,684**	$ 200,002	$ 183,502
Interest-bearing deposits with financial institutions		**485,446**	1,097,307	1,127,903
Total cash resources		**556,130**	1,297,309	1,311,405
Securities measured at fair value through profit or loss (FVTPL)		**56,023**	68,502	95,755
Securities measured at fair value through other comprehensive income (FVOCI)		**3,756,604**	3,911,796	4,898,386
Securities purchased under reverse repurchase agreements		**1,554,384**	400,355	299,481
Total securities	7	**5,367,011**	4,380,653	5,293,622
Business		**23,469,882**	23,833,674	22,090,814
Residential mortgages		**16,376,125**	16,438,739	15,988,157
Personal		**6,604,019**	6,667,543	6,757,674
Credit card		**757,858**	730,681	745,716
		47,207,884	47,670,637	45,582,361
Allowance for loan losses	9	**(679,692)**	(664,913)	(472,110)
Total net loans	8	**46,528,192**	47,005,724	45,110,251
Derivative financial instruments	10	**686,545**	642,070	672,465
Property and equipment		**286,361**	285,634	322,510
Software and other intangibles		**297,314**	302,865	295,240
Other assets		**475,110**	429,896	326,599
Total other assets		**1,745,329**	1,660,465	1,616,814
Total assets		**$ 54,196,662**	$ 54,344,151	$ 53,332,092
Redeemable fixed-date deposits		**2,334,566**	2,047,475	2,256,138
Non-redeemable fixed-date deposits		**9,011,799**	9,176,459	8,389,267
Saving accounts		**9,346,901**	10,004,043	9,559,542
Transaction accounts		**7,976,607**	7,574,046	7,690,806
Notice accounts		**7,427,938**	7,119,926	6,557,813
Total deposits		**36,097,811**	35,921,949	34,453,566
Securities sold under repurchase agreements		**98,379**	-	446,435
Wholesale borrowings		**3,355,897**	3,619,066	4,459,632
Collateralized borrowings	11	**8,662,082**	8,965,829	8,526,904
Derivative financial instruments	10	**494,459**	507,146	753,093
Other liabilities		**1,466,073**	1,346,904	926,824
Total other liabilities		**14,076,890**	14,438,945	15,112,888
Subordinated debentures		**298,188**	339,140	339,514
Total liabilities		**50,472,889**	50,700,034	49,905,968
Retained earnings		**3,699,527**	3,652,955	3,573,624
Non-controlling interest		**3,532**	4,314	2,460
Accumulated other comprehensive income (loss)		**20,714**	(13,152)	(149,960)
Total equity		**3,723,773**	3,644,117	3,426,124
Total liabilities and equity		**$ 54,196,662**	$ 54,344,151	$ 53,332,092

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Curtis Stange
President and Chief Executive Officer

Bob McGee
Chief Financial Officer

ATB

atb.com

Interim Condensed Consolidated Statement of Income

(Unaudited)

		For the three months ended		
($ in thousands)	Note	**June 30 2019**	March 31 2019	June 30 2018
Loans		**$ 503,203**	$ 493,796	$ 448,874
Securities		**18,370**	23,845	20,679
Interest-bearing deposits with financial institutions		**4,468**	4,029	3,662
Interest income		**526,041**	521,670	473,215
Deposits		**154,633**	152,024	105,657
Wholesale borrowings		**21,620**	22,321	25,275
Collateralized borrowings		**48,493**	47,928	43,207
Subordinated debentures		**2,272**	2,291	2,295
Interest expense		**227,018**	224,564	176,434
Net interest income		**299,023**	297,106	296,781
Wealth management		**53,935**	51,094	49,832
Service charges		**18,901**	19,366	18,828
Card fees		**16,268**	15,692	15,929
Credit fees		**10,726**	10,574	11,877
Insurance		**5,582**	7,756	4,668
Capital markets revenue		**6,989**	3,232	5,691
Foreign exchange		**9,801**	3,079	(1,994)
Net gains on derivative financial instruments		**7,998**	10,465	6,807
Net gains on securities		**5,099**	4,168	2,677
Sundry		**(452)**	(1,366)	928
Other income		**134,847**	124,060	115,243
Operating revenue		**433,870**	421,166	412,024
Provision for loan losses	9	**66,088**	165,508	50,322
Salaries and employee benefits		**166,986**	153,146	151,214
Data processing		**30,131**	28,624	31,124
Premises and occupancy, including depreciation		**20,798**	23,293	22,281
Professional and consulting costs		**13,869**	18,495	13,197
Deposit guarantee fee		**12,273**	12,368	11,328
Equipment, including depreciation		**6,829**	6,459	5,774
Software and other intangibles amortization		**19,101**	19,375	18,749
General and administrative		**20,411**	30,212	18,612
ATB agencies		**3,349**	3,319	3,195
Other		**14,648**	12,100	11,733
Non-interest expense		**308,395**	307,392	287,207
Net income (loss) before payment in lieu of tax		**59,387**	(51,734)	74,495
Payment in lieu of tax	12	**13,608**	(11,880)	17,199
Net income (loss)		**$ 45,779**	(39,854)	$ 57,296
Net income (loss) attributable to ATB Financial		**$ 46,561**	$ (40,073)	$ 57,350
Net loss attributable to non-controlling interests		**$ (782)**	$ (219)	(54)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Comprehensive Income

(Unaudited)

	For the three months ended		
($ in thousands)	**June 30 2019**	March 31 2019	June 30 2018
Net income (loss)	**$ 45,779**	$ (39,854)	$ 57,296
Items that may be reclassified subsequently to profit or loss:			
Unrealized net (losses) gains on securities measured at FVOCI:			
Unrealized net (losses) gains arising during the period	**(1,744)**	4,359	1,807
Net gains reclassified to net income	**(3,070)**	(4,168)	(2,684)
Unrealized net gains on derivative financial instruments designated as cash flow hedges:			
Unrealized net gains arising during the period	**48,153**	97,512	21,094
Net gains (losses) reclassified to net income	**14,538**	19,800	(13,627)
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plan liabilities	**(24,011)**	(11,046)	21,646
Other comprehensive income	**33,866**	106,456	28,236
Comprehensive income	**$ 79,645**	$66,603	$85,532
Attributable to:			
ATB Financial	**$ 80,427**	$66,814	$85,586
Non-controlling interests	**(782)**	(211)	(54)

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Changes in Equity

(Unaudited)

	For the three months ended		
($ in thousands)	**June 30 2019**	March 31 2019	June 30 2018
Retained earnings			
Balance at beginning of the period	**$ 3,652,955**	$ 3,693,234	$ 3,453,844
Net income (loss)	**45,779**	(39,854)	57,296
Transition adjustment (IFRS 9 and 15)	**-**	(598)	62,394
Other	**791**	173	90
Balance at end of the period	**3,699,525**	3,652,955	3,573,624
Non-controlling interest			
Balance at beginning of the period	**4,314**	4,525	3,508
Net loss attributable to non-controlling interests in subsidiaries	**(782)**	(211)	(54)
Other[(1)]	**-**	-	(994)
Balance at end of the period	**3,532**	4,314	2,460
Accumulated other comprehensive income (loss)			
Securities measured at fair value through other comprehensive income			
Balance at beginning of the period	**(1,817)**	(2,008)	-
Other comprehensive (loss) income	**(4,814)**	191	(877)
Balance at end of the period	**(6,631)**	(1,817)	(877)
Derivative financial instruments designated as cash flow hedges			
Balance at beginning of the period	**53,582**	(63,730)	(126,362)
Other comprehensive income	**62,691**	117,312	7,467
Balance at end of the period	**116,273**	53,582	(118,895)
Defined benefit plan liabilities			
Balance at beginning of the period	**(64,917)**	(53,871)	(51,834)
Other comprehensive (loss) income	**(24,011)**	(11,046)	21,646
Balance at end of the period	**(88,928)**	(64,917)	(30,188)
Accumulated other comprehensive income (loss)	**20,714**	(13,152)	(149,960)
Equity	**$ 3,723,771**	$ 3,644,117	$ 3,426,124

(1) Amount relates to the change in Class B shares during the period. Refer to note 14 for further details.

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Cash Flows

(Unaudited)

	For the three months ended		
($ in thousands)	**June 30 2019**	March 31 2019	June 30 2018
Cash flows from operating activities:			
Net income	**$ 45,779**	$ (39,854)	$ 57,296
Adjustments for non-cash items and others:			
Provision for loan losses	**66,088**	165,508	50,322
Depreciation and amortization	**30,399**	38,468	32,600
Net gains on securities	**5,099**	(4,168)	(2,677)
Adjustments for net changes in operating assets and liabilities:			
Loans	**472,847**	(83,381)	(954,166)
Deposits	**175,578**	7,926	1,769,999
Derivative financial instruments	**955**	80,593	(15,473)
Prepayments and other receivables	**(28,827)**	8,215	(45,325)
Due to clients, brokers and dealers	**348**	4,109	(14,187)
Deposit guarantee fee payable	**(39,631)**	12,194	(36,006)
Accounts payable and accrued liabilities	**178,415**	(7,532)	5,908
Liability for payment in lieu of tax	**(27,339)**	(11,748)	(64,478)
Net interest receivable and payable	**(15,437)**	38,365	(21,147)
Change in accrued pension-benefit liability	**24,929**	10,517	(21,201)
Others, net	**(67,772)**	(194,883)	98,641
Net cash provided by operating activities	**821,431**	24,329	840,106
Cash flows from investing activities:			
Change in securities measured at FVTPL	**126,481**	928,911	(236,979)
Change in securities purchased under reverse repurchase agreements	**(1,154,029)**	100,012	(249,385)
Change in interest-bearing deposits with financial institutions	**611,861**	(259,657)	(17,055)
Purchases and disposals of property and equipment, software, and other intangibles	**(25,575)**	(18,706)	(24,463)
Net cash (used in) provided by investing activities	**(441,262)**	750,560	(527,882)
Cash flows from financing activities:			
Issuance of wholesale borrowings	**(2,461,861)**	1,912,376	2,782,436
Repayment of wholesale borrowings	**2,198,693**	(2,670,054)	(2,979,273)
Issuance of collateralized borrowings	**207,280**	187,408	360,231
Repayment of collateralized borrowings	**(511,026)**	-	(241,780)
Change in securities sold under repurchase agreements	**98,379**	(98,715)	(344,392)
Issuance of subordinated debentures	**41,612**	-	81,651
Repayment of subordinated debentures	**(82,564)**	-	(73,122)
Net cash (used in) financing activities	**(509,488)**	(668,985)	(414,249)
Net (decrease) increase in cash and cash equivalents	**(129,318)**	105,904	(102,025)
Cash at beginning of period	**200,002**	94,098	285,527
Cash at end of period	**$ 70,684**	$ 200,002	$ 183,502
Net cash (used in) provided by operating activities include:			
Interest paid	**$ (244,572)**	$ (176,549)	$ (189,696)
Interest received	**$ 528,158**	$ 512,021	$ 465,294

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2019

1 Nature of Operations

ATB Financial (ATB) is an Alberta-based financial services provider engaged in retail and commercial banking, credit cards, digital banking, wealth management, and investment management services. ATB is an agent of the Crown in right of Alberta and operates under the authority of the *ATB Financial Act* (the *ATB Act*), Revised Statutes of Alberta, 2000, chapter A-37. Under the *ATB Act*, ATB was established as a provincial Crown corporation governed by a board of directors appointed by the Lieutenant-Governor in Council. The address of the head office is 2100, 10020-100 Street, Edmonton, Alberta, Canada, T5J 0N3.

ATB is for the most part exempt from Canadian federal and Alberta provincial income taxes but pays an amount to the provincial government designed to be in lieu of such a charge. (Refer to note 12.)

2 Significant Accounting Policies

Basis of Preparation

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the accounting requirements of the Alberta Superintendent of Financial Institutions (ASFI). The interim condensed consolidated financial statements do not include all of the information required for complete annual consolidated financial statements and should be read in conjunction with ATB's 2019 annual consolidated financial statements. The accounting policies, methods of computation, and presentation of these interim condensed consolidated financial statements are consistent with the most recent annual consolidated financial statements. These interim condensed consolidated financial statements were approved by the Audit Committee on August 15, 2019.

The interim condensed consolidated financial statements are presented in Canadian dollars, and all values are rounded to the nearest thousand dollars, except when otherwise indicated.

These interim condensed consolidated financial statements include the assets, liabilities, and results of operations and cash flows of ATB and its subsidiaries. All intercompany transactions and balances have been eliminated from the consolidated results.

Significant Accounting Judgments, Estimates, and Assumptions

In the process of applying ATB's accounting policies, management has exercised judgment and made estimates in determining amounts recognized in the interim condensed consolidated financial statements. The most significant judgments and estimates include the allowance for loan losses, the fair value of financial instruments, income taxes and deferred taxes, the depreciation of premises and equipment, the amortization of software, and the assumptions underlying the accounting for employee benefit obligations as described in note 2 to ATB's 2019 annual consolidated financial statements. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

3 Summary of Accounting Policy Changes

Change in Accounting Policies and Disclosures

In addition to the accounting policies disclosed in the 2019 annual consolidated financial statements, the following standards are required to be applied for periods beginning on or after January 1, 2019:

IFRS 16 Leases

Effective April 1, 2019, ATB adopted IFRS 16 *Leases* (IFRS 16), which replaces IAS 17 *Leases* (IAS 17). IFRS 16 provides a single lessee accounting model, requiring all leases to be finance leases and included on the consolidated statement of financial position. This differs from IAS 17, where leases were either an operating (off balance sheet) or a finance lease (on balance sheet).

ATB has applied the modified retrospective transition approach. The comparative figures were not restated, with any adjustments to the carrying amounts of assets and liabilities recognized in opening retained earnings on the consolidated statement of financial position in the current period. Therefore, the comparative information is not comparable to the information presented for the current period.

IFRS 16 has also permitted certain exemptions to be elected if they are met. ATB has elected the following exemptions:

- To not recognize right-of-use assets and lease liabilities that are either low value or have a lease term less than 12 months and
- Leases previously classified as a finance lease will continue to be classified as a lease under IFRS 16.

Accounting Policies Applicable Beginning April 1, 2019 (IFRS 16)

Lessee Accounting

Classification

ATB assesses at the start of a contract if the contract is, or contains, a lease. If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a right-of-use asset and a lease liability is recognized. The right-of-use asset is presented under property and equipment, and the lease liability is presented under other liabilities on the consolidated statement of financial position.

Measurement

Measuring the lease liability includes the following components:

- fixed lease payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts ATB expects to pay for residual value guarantees;
- the amount paid for a purchase option if ATB is reasonably certain it will exercise the option; and
- penalties for terminating the lease if the term includes the option to terminate and is exercised.

The lease liability is measured at amortized cost using the effective interest method and is remeasured when:

- future lease payments change due to an index or rate change;
- the amount expected to collect for a residual value guarantee changes; or
- the likelihood of exercising a purchase, extension, or termination option changes.

Remeasurements are recorded to the carrying amount of the right-of-use asset or to profit or loss if the carrying amount of the right-of-use asset is zero.

Lease payments are discounted over the non-cancellable term, using the interest rate implicit in the lease. However, if not readily determined, the incremental borrowing rate is used. For ATB, the incremental borrowing rate is based on our wholesale borrowing costs.

The right-of-use asset is initially measured to be equal to the right-of-use liability. The assets are depreciated until the earlier of:

- the end of the useful life of the right-of-use asset or
- the lease term.

The straight-line method is applied, as it best reflects the expected pattern of consumption of the future economic benefits. In addition, right-of-use assets may be reduced by impairment losses, if any, or for certain remeasurements made to the lease liability.

If the contract does not contain a lease, no asset or liability is recorded on the consolidated statement of financial position. Instead, payments are recognized in profit or loss on a straight-line basis over the term of the contract.

Lessor Accounting

Classification

The classification of leases for a lessor remain largely unchanged from IAS 17. Refer to the lessor accounting policy before April 1, 2019 (IAS 17). Additional guidance on subleases for lessors was included in IFRS 16.

Measurement

Similar to the classification for lessors, IFRS 16's measurement guidance remains largely unchanged. Refer to the lessor accounting policy before April 1, 2019 (IAS 17).

Subleases

IFRS 16 defines subleases as a transaction where an underlying asset is leased by a lessee ("intermediate lessor") to a third party. The lease ("head lease") between the head lessor and lessee remains unchanged.

If a transaction fits this criteria, the sublease is classified as either a finance or an operating lease based on the right-of-use asset arising from the head lease. However, if the head lease is a short-term lease that the entity, as a lessee, has accounted for, the sublease shall be classified as an operating lease.

Accounting Policies Applicable Before April 1, 2019 (IAS 17)

Lessee Accounting

Classification

ATB classified leases that transferred substantially all of the risks and rewards of ownership to ATB as finance leases. If the lease did not meet this requirement, they were classified as operating leases.

Measurement

Finance leases were initially measured and recognized on the consolidated statement of financial position at an amount equal to the lower of their fair value of the leased property or the present value of minimum lease payments. The corresponding liability to the lessor is included in other liabilities in the consolidated statement of financial position. The discount rate used in calculating the present value of the minimum lease payments is either the interest rate implicit in the lease, if it is practicable to determine, or the incremental borrowing rate. Contingent rentals are recognized as an expense in the periods in which they are incurred.

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences when the lessee controls the physical use of the property. Lease incentives or inducements are treated as a reduction of rental expense and recognized over the lease term on a straight-line basis. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Lessor Accounting

Classification

A lease is classified as a finance lease if it transfers substantially all the risks and rewards related to the underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards related to the underlying asset.

The classification is determined at inception and only reassessed if a lease modification occurs. Changes in estimates (e.g., changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (e.g., default by the lessee), do not change a lease's classification.

Measurement

A lessor shall recognize a finance lease on its consolidated statement of financial position (presented as a receivable at an amount equal to the net investment in the lease). The lease receivable includes:

- fixed payments (including in-substance fixed payments), less any lease incentives payable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts ATB expects to receive for residual value guarantees;
- the amount received for a purchase option if the lessee is reasonably certain to exercise; and
- penalties for terminating the lease if the term includes the option to terminate and the lessee is expected to exercise the option.

For operating leases, the monthly revenue is based on the payments received for the lease, with any cost, including depreciation, paid for earning the revenue recorded to non-interest expenses.

IAS 23 Borrowing Costs

In December 2017, the IASB issued the *Annual Improvements to IFRS Standards 2015–2017 Cycle* that amends IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes*, and IAS 23 *Borrowing Costs*. The amendment to IAS 23 *Borrowing Costs* is the only amendment that is applicable to ATB. The amendment clarifies that once an asset is ready for use or sale, any outstanding borrowing costs to obtain the asset are included when calculating the capitalization borrowing rate.

ATB implemented the interpretation with no impact on our financial performance.

IAS 19 Employee Benefits

In February 2018, the IASB issued *Plan Amendment, Curtailment or Settlement* for IAS 19 *Employee Benefits*. The amendment clarifies that if a plan amendment, curtailment, or settlement occurs, the calculation of the current service cost and net interest for the period following the remeasurement is based on assumptions used when the plan's net defined liability or asset is remeasured.

ATB implemented the amendment with no impact on our financial performance.

Future Accounting Changes

The following standards have been issued but are not yet effective on the date of issuance of ATB's interim condensed consolidated financial statements. ATB is currently assessing the impact of the application of these standards and will adopt them when they become effective.

IFRS 3 Business Combinations

In October 2018, the IASB issued *Definition of a Business (Amendments to IFRS 3)*. The amendment provides clarification on the definition of a business and additional factors to consider when determining if the entity has acquired a business or a group of assets.

ATB is currently assessing the impact of the new amendment, which is applicable for acquisitions that occur on or after the first period beginning on or after January 1, 2020. The amendments to IFRS 3 will be in effect starting April 1, 2020, which is ATB's 2021 fiscal year.

Definition of Material (Amendments to IAS 1 Presentation of Financial Statements and 8 Accounting Policies, Changes in Accounting Estimates and Errors)

In October 2018, the IASB issued *Definition of Material (Amendments to IAS 1 and IAS 8)* amending the definition of material in IAS 1 and IAS 8, replacing past definitions which should be used when applying the two standards. The new definition considers information as material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users of general purpose financial statements make based on a specific reporting entity's financial statements.

ATB is currently assessing the impact of the new definition, which is effective for annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted. The amendments to IAS 1 and 8 will be in effect starting April 1, 2020, the first day of ATB's 2021 fiscal year.

4 IFRS 16 Transition

The following table summarizes the impact of adopting IFRS 16 on ATB's consolidated balance sheet at April 1, 2019. Prior period amounts have not been restated.

	As at March 31, 2019		As at April 1, 2019
($ in thousands)	IAS 17 Carrying amount	Impact of adoption	IFRS 16 Carrying amount
Property and equipment	285,634	12,620	298,254
Other liabilities	1,346,904	12,620	1,359,524

5 Financial Instruments

a. Classification and Carrying Value

The following tables summarize the classification, carrying value and fair value of ATB's financial instruments as at June 30, 2019 and March 31, 2019.

As at June 30, 2019 *($ in thousands)*	Financial instruments classified as at FVTPL	Financial instruments designated as at FVTPL	Financial instruments classified as at FVOCI	Financial instruments designated as at FVOCI	Financial instruments measured at amortized cost	Total carrying value	
Financial assets							
Cash	$ -	$ -	$ -	$ -	$ 70,684	$ 70,684	(1)
Interest-bearing deposits with financial institutions	-	485,446	-	-	-	485,446	(1)
Securities measured at fair value through profit or loss (FVTPL)	42,026	13,997	-	-	-	56,023	
Securities measured at fair value through other comprehensive income (FVOCI)	-	-	3,752,673	3,931	-	3,756,604	
Securities purchased under reverse repurchase agreements	-	-	-	-	1,554,384	1,554,384	
Total securities	42,026	13,997	3,752,673	3,931	1,554,384	5,367,011	(1)
Business	-	-	-	-	23,469,882	23,469,882	
Residential mortgages	-	-	-	-	16,376,125	16,376,125	
Personal	-	-	-	-	6,604,019	6,604,019	
Credit card	-	-	-	-	757,858	757,858	
Allowance for loan losses	-	-	-	-	(679,692)	(679,692)	
Total loans	-	-	-	-	46,528,192	46,528,192	(2)
Derivative financial instruments	686,545	-	-	-	-	686,545	
Other assets	-	-	-	-	239,804	239,804	
Total other assets	686,545	-	-	-	239,804	926,349	(1)
Financial liabilities							
Redeemable fixed-date deposits	$ -	$ -	$ -	$ -	$ 2,334,566	$ 2,334,566	
Non-redeemable fixed-date deposits	-	-	-	-	9,011,799	9,011,799	
Saving accounts	-	-	-	-	9,346,901	9,346,901	
Transaction accounts	-	-	-	-	7,976,607	7,976,607	
Notice accounts	-	-	-	-	7,427,938	7,427,938	
Total deposits	-	-	-	-	36,097,811	36,097,811	(3)
Securities sold under repurchase agreements	-	-	-	-	98,379	98,379	(1)
Wholesale borrowings	-	272,826	-	-	3,083,071	3,355,897	(4)
Collateralized borrowings	-	-	-	-	8,662,082	8,662,082	(5)
Derivative financial instruments	494,459	-	-	-	-	494,459	(1)
Other liabilities	-	-	-	-	1,355,478	1,355,478	(1)
Total other liabilities	494,459	272,826	-	-	13,199,009	13,966,295	
Subordinated debentures	-	-	-	-	298,188	298,188	(6)

(1) Fair value estimated to equal carrying value.
(2) Fair value of loans estimated to be $48,340,552.
(3) Fair value of deposits estimated to be $36,023,620.
(4) Fair value of wholesale borrowings estimated to be $3,423,042.
(5) Fair value of collateralized borrowings estimated to be $8,699,996.
(6) Fair value of subordinated debentures estimated to be $303,890.

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As at March 31, 2019 ($ in thousands)	Carrying value Financial instruments classified as at FVTPL	Financial instruments designated as at FVTPL	Financial instruments classified as at FVOCI	Financial instruments designated as at FVOCI	Financial instruments measured at amortized cost	Total carrying value
Financial assets						
Cash	$ -	$ -	$ -	$ -	$ 200,002	$ 200,002[1]
Interest-bearing deposits with financial institutions	-	1,097,307	-	-	-	1,097,307[1]
Securities measured at FVTPL	53,502	15,000	-	-	-	68,502
Securities measured at FVOCI	-	-	3,910,168	1,628	-	3,911,796
Securities purchased under reverse repurchase agreements	-	-	-	-	400,355	400,355
Total securities	53,502	15,000	3,910,168	1,628	400,355	4,380,653[1]
Business	-	-	-	-	23,833,674	23,833,674
Residential mortgages	-	-	-	-	16,438,739	16,438,739
Personal	-	-	-	-	6,667,543	6,667,543
Credit card	-	-	-	-	730,681	730,681
Allowance for loan losses	-	-	-	-	(664,913)	(664,913)
Total loans	-	-	-	-	47,005,724	47,005,724[2]
Derivative financial instruments	642,070	-	-	-	-	642,070
Other assets	-	-	-	-	223,418	223,418
Total other assets	642,070	-	-	-	223,418	865,488[1]
Financial liabilities						
Redeemable fixed-date deposits	$ -	$ -	$ -	$ -	$ 2,047,475	$ 2,047,475
Non-redeemable fixed-date deposits	-	-	-	-	9,176,459	9,176,459
Saving accounts	-	-	-	-	10,004,043	10,004,043
Transaction accounts	-	-	-	-	7,574,046	7,574,046
Notice accounts	-	-	-	-	7,119,926	7,119,926
Total deposits	-	-	-	-	35,921,949	35,921,949[3]
Securities sold under repurchase agreements	-	-	-	-	-	-[1]
Wholesale borrowings	-	279,908	-	-	3,339,158	3,619,066[4]
Collateralized borrowings	-	-	-	-	8,965,829	8,965,829[5]
Derivative financial instruments	507,146	-	-	-	-	507,146[1]
Other liabilities	-	-	-	-	1,255,742	1,255,742[1]
Total other liabilities	507,146	279,908	-	-	13,560,729	14,347,783
Subordinated debentures	-	-	-	-	339,140	339,140[6]

(1) Fair value estimated to equal carrying value.
(2) Fair value of loans estimated at $48,675,761.
(3) Fair value of deposits estimated at $35,788,176.
(4) Fair value of wholesale borrowings estimated at $3,675,152.
(5) Fair value of collateralized borrowings estimated at $8,960,825.
(6) Fair value of subordinated debentures estimated at $342,249.

b. Fair-Value Hierarchy

The following tables present the financial instruments ATB has recognized at fair value, classified using the fair-value hierarchy described in note 5 to the consolidated financial statements for the year ended March 31, 2019. Transfers between fair-value levels can result from additional, changes in, or new information regarding the availability of quoted market prices or observable market inputs. For the three months ended June 30, 2019, and the year ended March 31, 2019, there were no transfers of financial instruments between levels 1 and 2 or into and out of level 3.

As at June 30, 2019 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions	**$ -**	**$ 485,446**	**$ -**	**$ 485,446**
Securities				
Securities measured at FVTPL	**13,897**	**-**	**42,126**	**56,023**
Securities measured at FVOCI	**3,752,673**	**-**	**3,931**	**3,756,604**
Other assets				
Derivative financial instruments	-	**686,545**	**-**	**686,545**
Total financial assets	**$ 3,766,570**	**$ 1,171,991**	**$ 46,057**	**$ 4,984,618**
Financial liabilities				
Wholesale borrowings	**-**	**272,826**	**-**	**272,826**
Other liabilities				
Derivative financial instruments	**-**	**494,459**	**-**	**494,459**
Total financial liabilities	**$ -**	**$ 767,284**	**$ -**	**$ 767,284**

As at March 31, 2019 ($ in thousands)	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions	$ -	$ 1,097,307	$ -	$ 1,097,307
Securities				
Securities measured at FVTPL	33,062	-	35,440	68,502
Securities measured at FVOCI	3,910,168	-	1,628	3,911,796
Other assets				
Derivative financial instruments	1,860	640,210	-	642,070
Total financial assets	$ 3,945,090	$ 1,737,517	$ 37,068	$ 5,719,675
Financial liabilities				
Wholesale borrowings	-	279,908	-	279,908
Other liabilities				
Derivative financial instruments	2,803	504,343	-	507,146
Total financial liabilities	$ 2,803	$ 784,251	$ -	$ 787,054

ATB performs a sensitivity analysis for fair-value measurements classified as level 3, substituting one or more reasonably possible alternative assumptions for the unobservable inputs. The sensitivity analysis is detailed in note 7 for other securities designated at fair value through profit and loss (FVTPL).

The following table presents the changes in fair value of level 3 financial instruments for the three months ended June 30, 2019:

($ in thousands)	**Securities designated as at FVOCI**	**Securities classified as at FVTPL**
Fair value as at March 31, 2019	$ 1,628	$ 35,440
Total realized and unrealized losses included in net income	-	2,029
Total realized and unrealized gains included in other comprehensive income	-	-
Purchases and issuances	2,303	4,657
Sales and settlements	-	-
Fair value as at June 30, 2019	$ 3,931	$ 42,126
Change in unrealized gains included in income with respect to financial instruments held as at June 30, 2019	$ -	$ 2,029

The interim condensed consolidated statement of income line item net gains on securities captures both realized and unrealized fair-value movements on all financial instruments classified and designated at FVTPL and realized gains on securities measured at fair value through other comprehensive income (FVOCI).

6 Financial Instruments – Risk Management

ATB has included certain disclosures required by IFRS 7 in the Risk Management section of the MD&A, which is an integral part of the interim condensed consolidated financial statements. The use of financial instruments exposes ATB to credit, liquidity, market, interest rate, and foreign-exchange risk. ATB's risk management practices and key measures are disclosed in the Risk Management section of the MD&A in the 2019 Annual Report.

7 Securities

The carrying value of securities by remaining term to maturity and net of valuation provisions is as follows:

As at *($ in thousands)*	**Within 1 year**	**1–5 years**	**Over 5 years**	**June 30, 2019 Total carrying value**	March 31, 2019 Total carrying value
Securities measured at FVTPL					
Issued or guaranteed by the Canadian federal or provincial governments	**$ 14,020**	**$ -**	**$ -**	**$ 14,020**	$ 15,000
Other securities	**-**	**37,933**	**4,070**	**42,003**	53,502
Total securities measured at FVTPL	**$ 14,020**	**$ 37,933**	**$ 4,070**	**$ 56,023**	$ 68,502
Securities measured at FVOCI					
Issued or guaranteed by the Canadian federal or provincial governments	**$ 1,935,573**	**$ 1,754,217**	**$ 62,883**	**$ 3,752,673**	$ 3,910,168
Other securities	**-**	**-**	**3,931**	**3,931**	1,628
Total securities measured at FVOCI	**$ 1,935,573**	**$ 1,754,217**	**$ 66,814**	**$ 3,756,604**	$ 3,911,796
Securities purchased under reverse repurchase agreements					
Issued or guaranteed by the Canadian federal or provincial governments	**$ 1,554,384**	**$ -**	**$ -**	**$ 1,554,384**	$ 400,355
Total securities purchased under reverse repurchase agreements	**$ 1,554,384**	**$ -**	**$ -**	**$ 1,554,384**	$ 400,355

Other Securities Measured at FVTPL

These securities in the current year relate to investments made by AltaCorp and investments made by ATB to a broad range of private Alberta companies. There is no observable market price for the investments made in these private Alberta companies as at the balance sheet date. ATB estimated the fair value using a combination of discounted cash flows and market multiples derived from quoted prices of comparative companies, specifically the expected earnings before interest, income tax, depreciation, and amortization (EBITDA). The key assumptions in this model are the exit multiple of 6.0 to 8.0, the weighted average cost of capital of 20.0 to 21.0%, and the EBITDA multiple of 2.84 to 10.07. A 0.5 increase of the exit multiple and a 1.0% decrease in the weighted average cost of capital and 0.5 increase of the EBITDA multiple would increase the fair value by $3.4 million (March 2019: $3.2 million ; June 2018: $2.2 million). The estimate is also adjusted for the effect of the non-marketability of these investments.

8 Loans

In the performing retail portfolio, the credit quality of each borrower is assessed based on their beacon score. The following table outlines the borrower's score assigned to each range:

Risk assessment	Beacon score range
Very low risk	800–900
Low risk	700–799
Medium risk	620–699
High risk	619 or lower

For performing non-retail loans, the credit quality of each borrower is assessed and assigned a borrower risk rating (BRR), with the following table outlining the BRR assigned to each range:

Risk assessment	BRR range
Very low risk	1–4
Low risk	5–7
Medium risk	8–9
High risk	10–13

Credit Quality

The following table presents the gross carrying amount of loans and the full contractual amount of undrawn loan commitments subject to the impairment requirements under IFRS 9:

As at				**June 30 2019**				March 31 2019
	Performing		**Impaired**		Performing		Impaired	
($ in thousands)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Business								
Very low risk	**$ 3,010,007**	**$ 383,035**	**$ -**	**$ 3,393,042**	$ 3,051,685	$ 329,503	$ -	$ 3,381,188
Low risk	**5,547,389**	**8,771,379**	**-**	**14,318,768**	6,975,076	7,571,098	-	14,546,174
Medium risk	**1,147,460**	**3,184,228**	**-**	**4,331,688**	1,574,296	2,774,313	-	4,348,609
High risk	**-**	**455,755**	**-**	**455,755**	3,408	532,346	-	535,754
Not rated	**58,459**	**93,853**	**-**	**152,312**	186,953	13,986	-	200,939
Impaired	**-**	**-**	**818,317**	**818,317**	-	-	821,010	821,010
Total	**9,763,315**	**12,888,250**	**818,317**	**23,469,882**	11,791,418	11,221,246	821,010	23,833,674
Residential mortgages								
Very low risk	**6,675,839**	**18,400**	**-**	**6,694,239**	6,663,812	14,392	-	6,678,204
Low risk	**5,830,761**	**34,280**	**-**	**5,865,041**	5,842,586	25,892	-	5,868,478
Medium risk	**2,698,009**	**44,348**	**-**	**2,742,357**	2,779,640	37,595	-	2,817,235
High risk	**592,354**	**388,254**	**-**	**980,608**	634,932	339,389	-	974,321
Not rated	**15,707**	**536**	**-**	**16,243**	18,176	850	-	19,026
Impaired	**-**	**-**	**77,637**	**77,637**	-	-	81,475	81,475
Total	**15,812,670**	**485,818**	**77,637**	**16,376,125**	15,939,146	418,118	81,475	16,438,739
Personal								
Very low risk	**2,557,107**	**16,035**	**-**	**2,573,142**	2,571,482	15,264	-	2,586,746
Low risk	**2,168,518**	**140,509**	**-**	**2,309,027**	2,063,146	224,641	-	2,287,787
Medium risk	**912,779**	**255,733**	**-**	**1,168,512**	958,758	264,940	-	1,223,698
High risk	**257,328**	**188,707**	**-**	**446,035**	280,698	187,243	-	467,941
Not rated	**30,979**	**5,364**	**-**	**36,343**	28,847	7,206	-	36,053
Impaired	**-**	**-**	**70,960**	**70,960**	-	-	65,318	65,318
Total	**5,926,711**	**606,348**	**70,960**	**6,604,019**	5,902,931	699,294	65,318	6,667,543
Credit card								
Very low risk	**77,523**	**14,651**	**-**	**92,174**	70,167	14,246	-	84,413
Low risk	**196,706**	**78,570**	**-**	**275,276**	182,586	77,615	-	260,201
Medium risk	**132,908**	**76,583**	**-**	**209,491**	134,752	74,598	-	209,350
High risk	**22,452**	**68,795**	**-**	**91,247**	24,806	67,151	-	91,957
Not rated	**11,961**	**71,544**	**-**	**83,505**	9,419	68,207	-	77,626
Impaired	**-**	**-**	**6,165**	**6,165**	-	-	7,134	7,134
Total	**441,550**	**310,143**	**6,165**	**757,858**	421,730	301,817	7,134	730,681
Total loans	**31,944,246**	**14,290,559**	**973,079**	**47,207,884**	34,055,225	12,640,475	974,937	47,670,637
Total allowance for loan losses	**(65,800)**	**(138,481)**	**(475,411)**	**(679,692)**	(73,273)	(116,620)	(475,019)	(664,912)
Total net loans	**$ 31,878,446**	**$ 14,152,078**	**$ 497,668**	**$ 46,528,192**	$ 33,981,952	$ 12,523,855	$ 499,918	$ 47,005,725

As at				June 30 2019				March 31 2019
	Performing		**Impaired**		Performing		Impaired	
($ in thousands)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Undrawn loan commitments – retail								
Very low risk	**4,179,018**	**14,445**	**-**	**4,193,463**	4,196,800	25,059	-	4,221,859
Low risk	**1,032,719**	**62,368**	**-**	**1,095,087**	969,986	85,306	-	1,055,292
Medium risk	**122,638**	**43,816**	**-**	**166,454**	133,182	43,728	-	176,910
High risk	**13,109**	**29,585**	**-**	**42,694**	15,328	28,796	-	44,124
Not rated	**16,008**	**6,129**	**-**	**22,137**	12,544	10,275	-	22,819
Total	**$ 5,363,492**	**$ 156,343**	**-**	**$ 5,519,835**	$ 5,327,840	$ 193,164	$ -	$ 5,521,004
Undrawn loan commitments – non-retail								
Very low risk	**4,869,233**	**853,771**	**-**	**5,723,004**	4,770,110	292,746	-	5,062,856
Low risk	**2,640,434**	**3,045,106**	**-**	**5,685,540**	3,258,313	3,485,152	-	6,743,465
Medium risk	**203,877**	**603,591**	**-**	**807,468**	254,893	675,335	-	930,228
High risk	**72**	**177,036**	**-**	**177,108**	180	297,076	-	297,256
Not rated	**57,116**	**204,858**	**-**	**261,974**	39,034	206,142	-	245,176
Total	**$ 7,770,732**	**$ 4,884,362**	**-**	**$ 12,655,094**	$ 8,322,530	$ 4,956,451	$ -	$ 13,278,981

Loans Past Due

The following are the loans past due but not impaired because they are less than 90 days past due or because it is otherwise reasonable to expect timely collection of principal and interest:

As at June 30, 2019 *($ in thousands)*	**Residential mortgages**	**Business**	**Personal**	**Credit card**	**Total**	**Percentage of total gross loans**
Up to 1 month[(1)]	**$ 114,917**	**$ 40,037**	**$ 61,295**	**$ 41,159**	**$ 257,408**	**0.55%**
Over 1 month up to 2 months	**110,416**	**66,390**	**67,578**	**9,109**	**253,493**	**0.54%**
Over 2 months up to 3 months	**35,103**	**35,541**	**14,152**	**3,131**	**87,927**	**0.19%**
Over 3 months	**1,997**	**3,338**	**958**	**5,225**	**11,518**	**0.02%**
Total past due but not impaired	**$ 262,433**	**$ 145,306**	**$ 143,983**	**$ 58,624**	**$ 610,346**	**1.3%**

As at June 30, 2018 *($ in thousands)*	Residential mortgages	Business	Personal	Credit card	Total	Percentage of total gross loans
Up to 1 month[(1)]	$ 174,155	$ 77,957	$ 52,002	$ 39,376	$ 343,490	0.75%
Over 1 month up to 2 months	33,378	164,717	38,342	9,792	246,229	0.54%
Over 2 months up to 3 months	35,962	34,603	16,254	4,297	91,116	0.20%
Over 3 months	1,005	4,956	919	5,574	12,454	0.03%
Total past due but not impaired	$ 244,500	$ 282,233	$ 107,517	$ 59,039	$ 693,289	1.5%

(1) Loans past due by 1 day are not disclosed as they are not administratively considered past due.

9 Allowance for Loan Losses

Key Inputs and Assumptions

Measuring expected credit losses is based on a complex calculation that involves a number of variables and assumptions. The key inputs for determining expected credit losses are:

- A borrower's credit quality, reflected through changes in risk ratings
- Forward-looking macroeconomic conditions
- Changes to the probability-weighted scenarios and
- Stage migration as a result of the inputs noted above

	For the three months ended June 30, 2019				
($ in thousands)	**Balance at beginning of period**	**Provision for loan losses**	**Net Write-offs**	**Discounted cash flows on impaired loans and other**	**Balance at end of period**
Business	**$ 546,825**	**$ 41,900**	**$ (32,286)**	**$ (3,192)**	**$ 553,247**
Residential mortgages	**5,493**	**1,807**	**(334)**	**(38)**	**6,928**
Personal	**71,498**	**14,590**	**(9,829)**	**(97)**	**76,162**
Credit card	**41,097**	**7,791**	**(5,486)**	**(47)**	**43,355**
Total	**$ 664,913**	**$ 66,088**	**$ (47,935)**	**$ (3,374)**	**$ 679,692**

	For the three months ended June 30, 2018				
($ in thousands)	Balance at beginning of period	Provision for loan losses	Net Write-offs	Discounted cash flows on impaired loans and other	Balance at end of period
Business	$ 342,366	$ 52,885	$ (8,064)	$ (2,622)	$ 384,565
Residential mortgages	5,406	(673)	(365)	(165)	4,203
Personal	59,201	10,059	(11,220)	(158)	57,882
Credit card	39,657	(11,949)	(2,268)	20	25,460
Total	$ 446,630	$ 50,322	$ (21,917)	$ (2,925)	$ 472,110

The following tables reconcile the opening and closing allowances for loans, by stage, for each major category:

Allowance for loan losses – business	**For the three months ended June 30, 2019**				For the three months ended June 30, 2018			
	Performing		**Impaired**		Performing		Impaired	
($ in thousands)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	**$ 22,314**	**$ 77,863**	**$ 446,648**	**$ 546,825**	$ 27,702	$ 50,214	$ 264,450	$ 342,366
Provision for loan losses								
Transfers (out) in of Stage 1[1]	**(3,185)**	**3,018**	**167**	**-**	6,888	(6,921)	33	-
Transfers in (out) of Stage 2[1]	**(7,234)**	**5,342**	**1,892**	**-**	6,921	(10,274)	3,353	-
Transfers in (out) of Stage 3[1]	**(1,360)**	**(15,783)**	**17,143**	**-**	(33)	(3,353)	3,386	-
New originations[2]	**4,324**	**13,794**	**23,192**	**41,310**	3,628	3,703	2,856	10,187
Repayments[3]	**(2,912)**	**(9,305)**	**(8,870)**	**(21,087)**	(1,247)	(2,342)	(853)	(4,442)
Remeasurements[4]	**(764)**	**21,124**	**1,317**	**21,677**	(20,322)	5,955	61,507	47,140
Write-offs	**-**	**-**	**(33,220)**	**(33,220)**	-	-	(8,800)	(8,800)
Recoveries	**-**	**-**	**934**	**934**	-	-	736	736
Discounted cash flows on impaired loans and other	**(26)**	**(87)**	**(3,079)**	**(3,192)**	8	36	(2,666)	(2,622)
Balance at end of period	**$ 11,157**	**$ 95,966**	**$ 446,124**	**$ 553,247**	$ 23,545	$ 37,018	$ 324,002	$ 384,565

Allowance for loan losses – residential mortgages	**For the three months ended June 30, 2019**				For the three months ended June 30, 2018			
	Performing		**Impaired**		Performing		Impaired	
($ in thousands)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	**$ 1,495**	**$ 952**	**$ 3,046**	**$ 5,493**	$ 2,110	$ 1,313	$ 1,983	$ 5,406
Provision for loan losses								
Transfers (out) in of Stage 1[1]	**(15)**	**13**	**2**	**-**	7	(7)	-	-
Transfers in (out) of Stage 2[1]	**(374)**	**294**	**80**	**-**	28	(45)	17	-
Transfers in (out) of Stage 3[1]	**(83)**	**(524)**	**607**	**-**	(11)	(39)	50	-
New originations[2]	**119**	**117**	**39**	**275**	11	(3)	5	13
Repayments[3]	**-**	**(2)**	**-**	**(2)**	(4)	(1)	-	(5)
Remeasurements[4]	**1,006**	**796**	**(268)**	**1,534**	(414)	(211)	(56)	(681)
Write-offs	**-**	**-**	**(484)**	**(484)**	-	-	(549)	(549)
Recoveries	**-**	**-**	**150**	**150**	-	-	184	184
Discounted cash flows on impaired loans and other	**-**	**-**	**(38)**	**(38)**	-	-	(165)	(165)
Balance at end of period	**$ 2,148**	**$ 1,646**	**$ 3,134**	**$ 6,928**	$ 1,727	$ 1,007	$ 1,469	$ 4,203

Allowance for loan losses – personal	For the three months ended June 30, 2019				For the three months ended June 30, 2018			
	Performing		Impaired		Performing		Impaired	
($ in thousands)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	**$ 38,898**	**$ 11,764**	**$ 20,836**	**$ 71,498**	$ 27,676	$ 11,152	$ 20,373	$ 59,201
Provision for loan losses								
Transfers (out) in of Stage 1[1]	**(786)**	**626**	**160**	**-**	(196)	181	15	-
Transfers in (out) of Stage 2[1]	**(2,490)**	**919**	**1,571**	**-**	(1,376)	1,068	308	-
Transfers in (out) of Stage 3[1]	**(2,953)**	**(3,583)**	**6,536**	**-**	(337)	(695)	1,032	-
New originations[2]	**1,662**	**636**	**733**	**3,031**	2,128	155	29	2,312
Repayments[3]	**(96)**	**(268)**	**(101)**	**(465)**	(858)	(264)	(18)	(1,140)
Remeasurements[4]	**6,061**	**3,512**	**2,451**	**12,024**	1,164	(1,778)	9,501	8,887
Write-offs	**-**	**-**	**(10,337)**	**(10,337)**	(10)	(21)	(11,901)	(11,932)
Recoveries	**-**	**-**	**508**	**508**	-	-	712	712
Discounted cash flows on impaired loans and other	**-**	**-**	**(97)**	**(97)**	-	-	(158)	(158)
Balance at end of period	**$ 40,296**	**$ 13,606**	**$ 22,260**	**$ 76,162**	$ 28,191	$ 9,798	$ 19,893	$ 57,882

Allowance for loan losses – credit cards	For the three months ended June 30, 2019				For the three months ended June 30, 2018			
	Performing		Impaired		Performing		Impaired	
($ in thousands)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of period	**$ 10,567**	**$ 26,041**	**$ 4,489**	**$ 41,097**	$ 13,151	$ 26,506	$ -	$ 39,657
Provision for loan losses								
Transfers (out) in of Stage 1[1]	**(101)**	**95**	**6**	**-**	7	(7)	-	-
Transfers in (out) of Stage 2[1]	**(1,449)**	**1,060**	**389**	**-**	2,029	(2,029)	-	-
Transfers in (out) of Stage 3[1]	**(85)**	**(859)**	**944**	**-**	-	-	-	-
New originations[2]	**288**	**152**	**-**	**440**	220	109	-	329
Repayments[3]	**(182)**	**(782)**	**-**	**(964)**	(247)	(2,325)	-	(2,572)
Remeasurements[4]	**3,174**	**1,565**	**3,576**	**8,315**	(3,258)	(8,716)	2,268	(9,706)
Write-offs	**-**	**-**	**(9,001)**	**(9,001)**	-	-	(5,520)	(5,520)
Recoveries	**-**	**-**	**3,515**	**3,515**	-	-	3,252	3,252
Discounted cash flows on impaired loans and other	**(13)**	**(9)**	**(25)**	**(47)**	7	13	-	20
Balance at end of period	**$ 12,199**	**$ 27,263**	**$ 3,893**	**$ 43,355**	$ 11,909	$ 13,551	$ -	$ 25,460

(1) Stage transfers represent movement between stages and excludes changes due to remeasurements.
(2) New originations relate to new loans recognized during the period.
(3) Repayments relate to loans fully repaid or derecognized and exclude loans written off where a credit loss was incurred.
(4) Represents the change in the allowance due to changes in economic factors, risk, and model parameters.

10 Derivative Financial Instruments

The fair value of derivative financial instruments, segregated between contracts in a favourable position i.e., having positive fair value) and an unfavourable position (i.e., having negative fair value) consists of the following:

			June 30 2019			March 31 2019
As at ($ in thousands)	**Notional amount**	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
Over-the-counter contracts						
Interest rate contracts						
Swaps	**$ 29,033,742**	**$ 268,247**	**$ (182,886)**	$ 28,071,449	$ 216,770	$ (183,980)
Other	**3,233,604**	**70,975**	**(36,951)**	2,999,052	51,940	(31,897)
Foreign-exchange contracts						
Forwards	**1,771,723**	**30,900**	**(30,382)**	2,879,492	25,648	(20,482)
Cross-currency swaps	**1,675,095**	**68,291**	**(32,049)**	1,748,581	61,388	(24,211)
Commodity contracts						
Forwards	**2,418,181**	**248,132**	**(210,264)**	2,553,397	284,464	(242,324)
Embedded derivatives						
Market-linked deposits	**416,191**	**-**	**(1,927)**	384,098	-	(1,449)
Exchange-traded contracts						
Interest rate contracts						
Futures	**-**	**-**	**-**	800,000	1,860	(2,803)
Total	**$ 38,548,536**	**$ 686,545**	**$ (494,459)**	$ 39,436,069	$ 642,070	$ (507,146)

In addition to the notional amounts shown above, ATB has certain foreign-exchange spot deals that settle in one day, with notional amounts of $3.4 million as at June 30, 2019 (March 31, 2019: $112.7 million).

Refer to note 11 of the consolidated financial statements for the year ended March 31, 2019, for a more complete description of ATB's derivative-related activities.

11 Collateralized Borrowings

Canada Mortgage Bond (CMB) Program

ATB periodically securitizes residential mortgage loans by participating in the *National Housing Act* Mortgage-Backed Security (NHA-MBS) program. The MBS issued as a result of this program are pledged to the Canadian Mortgage Bond (CMB) Program or to third-party investors. The terms of this transaction do not meet the derecognition criteria as outlined in IFRS 9 *Financial Instruments*; therefore, it is accounted for as a collateralized borrowing. Refer to note 16 of the consolidated financial statements for the year ended March 31, 2019, for a more complete description of the program.

Credit Card Securitization

ATB entered into a program with another financial institution to securitize credit card receivables to obtain additional funding. This program allows ATB to borrow up to 85% of the amount of credit card receivables pledged. The secured credit card receivables remain on ATB's interim condensed consolidated statement of financial position and have not been transferred, as they do not qualify for derecognition. Should the amount securitized not adequately support the program, ATB will be responsible for funding this shortfall.

The following table presents the carrying amount of ATB's residential mortgage loans, credit card receivables, and assets pledged as collateral for the associated liability recognized in the interim condensed consolidated statement of financial position:

As at	**June 30**	March 31
($ in thousands)	**2019**	2019
Principal value of mortgages pledged as collateral	**$ 7,611,847**	$ 7,610,203
ATB mortgage-backed securities pledged as collateral through repurchase agreements	**710,226**	1,017,580
Principal value of credit card receivables pledged as collateral	**699,248**	677,148
Total	**$ 9,021,321**	$ 9,304,931
Associated liabilities	**$ 8,662,082**	$ 8,965,829

12 Payment in Lieu of Tax

For the three months ended June 30, 2019, ATB accrued a total of $14.2 million (June 30, 2018: $17.1 million) for payment in lieu of tax. The payment in lieu of tax will continue to be settled by issuing subordinated debentures until ATB's Tier 2 notional capital is eliminated. The payment in lieu of tax is calculated as 23.0% of net income reported under IFRS, excluding AltaCorp Capital's net income, which is subject to income tax.

13 Capital Management

ATB measures and reports capital adequacy to ensure that it meets the minimum levels set out by our regulator, Alberta Superintendent of Financial Institutions, while supporting the continued growth of our business.

As a Crown corporation, ATB and its subsidiaries operate under a regulatory framework established pursuant to the *ATB Act* and associated regulations and guidelines. The capital adequacy requirements for ATB are defined in a guideline authorized by the Minister, which was modelled after guidelines governing other Canadian deposit-taking institutions. ATB's minimum Tier 1 capital requirement is 7.0%, and the total capital requirement is the greater of 10.0% of risk-weighted assets or 5.0% of total assets. Risk weights are established for various on-balance-sheet and off-balance-sheet assets according to the degree of credit risk. Tier 1 capital consists of retained earnings, and Tier 2 capital consists of eligible portions of subordinated debentures and wholesale borrowings, the collective allowance for loan losses, and notional capital. Wholesale borrowings became eligible as Tier 2 capital as of December 2015 as a result of an amendment to the capital requirements guideline. Effective March 30, 2009, $600 million of notional capital was made available to ATB. This amount reduces by 25% of net income each quarter. Effective April 1, 2017, software and other intangibles was deducted from total capital.

As at June 30, 2019, ATB had exceeded both the total capital requirements and the Tier 1 capital requirement of the *Capital Adequacy* guideline.

As at *($ in thousands)*	**June 30 2019**	March 31 2019
Tier 1 capital		
Retained earnings	**$ 3,699,527**	$ 3,652,955
Tier 2 capital		
Eligible portions of:		
Subordinated debentures	**166,040**	124,727
Wholesale borrowings	**1,813,104**	1,853,760
Collective allowance for loan losses	**204,281**	189,894
Notional capital	**87,556**	99,199
Total Tier 2 capital	**2,270,981**	2,267,580
Deductions from capital		
Software and other intangibles	**297,314**	302,865
Total capital	**$ 5,673,194**	$ 5,617,670
Total risk-weighted assets	**$ 36,940,516**	$ 37,441,480
Risk-weighted capital ratios		
Tier 1 capital ratio	**10.0%**	9.8%
Total capital ratio	**15.4%**	15.0%

14 Share Capital

ATB's subsidiary, AltaCorp, issues share capital as follows:

(a) Authorized:
Unlimited number of Class A voting common shares without nominal or par value;
Unlimited number of Class B non-voting common shares without nominal or par value.

(in thousands)	**Shares**	**Value**
Class A shares		
Balance, as of March 31, 2019	**3,386**	**$ 4,414**
Shares issued during the year	**-**	**-**
Balance, as of June 30, 2019	**3,386**	**$ 4,414**

(in thousands)	**Shares**	**Value**
Class B shares		
Balance, as of March 31, 2019, restated[(1)]	**2,494**	**$ 1,978**
Shares issued during the year	**-**	**-**
Shares repurchased during the year	**-**	**-**
Share purchase loan	**-**	**-**
Balance, as of June 30, 2019	**2,494**	**$ 1,978**

(1) The value of the Class B shares repurchased during the year ended March 31, 2019 has been restated by $464 to reflect a change in value from when the shares were initially issued to when they were repurchased.

15 Segmented Information

ATB has organized its operations and activities around the following five areas of expertise that differ in products and services offered:

- **Everyday Financial Services** provides service and support for all personal and digital business customers through our retail branches, agencies, entrepreneur centres, mortgage and broker services, and Client Care (call centre) distribution channels.
- **Business and Agriculture** provides financial services to independent business and agricultural customers.
- **Corporate Financial Services** provides financial services to mid-sized and large corporate borrowers.
- **ATB Wealth** provides wealth management solutions, including retail brokerage, mutual funds, portfolio management, investment advice, and private banking.
- **AltaCorp Capital Inc.** provides advisory and institutional financial services, including corporate mergers and acquisitions, equity financings, debt capital markets, acquisitions and divestitures, equity research, sales and trading, market making, and private wealth management.

The strategic service units comprise business units of a corporate nature, such as risk management, treasury operations, intracompany allocations, and intercompany eliminations, as well as expenses not expressly attributed to any area of expertise.

Refer to note 30 to the consolidated financial statements for the year ended March 31, 2019, for additional detail on the method used to generate the segmented information.

For the three months ended *($ in thousands)*	Everyday Financial Services[(1),(2)]	Business and Agriculture[(2)]	Corporate Financial Services	ATB Wealth	AltaCorp Capital Inc.	Strategic service units	Total
June 30, 2019							
Net interest income	**$ 122,965**	**$ 70,252**	**$ 82,112**	**$ 4,737**	**$ 133**	**$ 18,824**	**$ 299,023**
Other income	**27,378**	**16,058**	**20,050**	**55,667**	**6,898**	**8,796**	**134,847**
Total operating revenue	**150,343**	**86,310**	**102,162**	**60,404**	**7,031**	**27,620**	**433,870**
Provision for loan losses	**14,717**	**18,530**	**32,208**	**633**	**-**	**-**	**66,088**
Non-interest expenses[(3)]	**139,633**	**57,045**	**35,128**	**54,149**	**9,967**	**12,473**	**308,395**
(Loss) income before payment in lieu of tax	**(4,007)**	**10,735**	**34,826**	**5,622**	**(2,936)**	**15,147**	**59,387**
Payment in lieu of tax	**-**	**-**	**-**	**3,616**	**(634)**	**10,626**	**13,608**
Net (loss) income	**$ (4,007)**	**$ 10,735**	**$ 34,826**	**$ 2,006**	**$ (2,302)**	**$ 4,521**	**$ 45,779**
Total assets	**$ 23,950,252**	**$ 7,293,757**	**$ 14,308,254**	**$ 1,090,201**	**$ 26,571**	**$ 7,527,627**	**$ 54,196,662**
Total liabilities	**$ 14,536,689**	**$ 7,279,485**	**$ 10,926,707**	**$ 1,100,368**	**$ 20,011**	**$ 16,609,629**	**$ 50,472,889**
March 31, 2019							
Net interest income	$ 109,117	$ 81,526	$ 78,288	$ 4,647	$ 104	$ 23,424	$ 297,106
Other income	24,506	20,350	22,340	53,032	3,188	644	124,060
Total operating revenue	133,623	101,876	100,628	57,679	3,292	24,068	421,166
Provision for loan losses	19,255	59,376	85,534	1,343	-	-	165,508
Non-interest expenses[(3)]	128,251	68,645	39,111	52,931	4,760	13,694	307,392
(Loss) income before payment In lieu of tax	(13,883)	(26,145)	(24,017)	3,405	(1,468)	10,374	(51,734)
Payment in lieu of tax	-	-	-	3,103	(125)	(14,858)	(11,880)
Net (loss) income	$ (13,883)	$ (26,145)	$ (24,017)	$ 302	$ (1,343)	$ 25,233	$ (39,854)
Total assets	$ 23,344,544	$ 7,774,939	$ 14,036,096	$ 994,842	$ 42,334	$ 8,151,396	$ 54,344,151
Total liabilities	$ 12,845,125	$ 9,133,732	$ 10,741,203	$ 1,015,807	$ 34,182	$ 16,929,985	$ 50,700,034
June 30, 2018[(4)]							
Net interest income	$ 111,216	$ 83,416	$ 85,516	$ 3,593	$ (33)	$ 13,073	$ 296,781
Other income (loss)	21,196	20,597	18,360	51,722	5,858	(2,490)	115,243
Total operating revenue	132,412	104,013	103,876	55,315	5,825	10,583	412,024
Provision for loan losses	1,087	14,847	34,388	-	-	-	50,322
Non-interest expenses[(3)]	127,187	67,221	32,444	50,346	6,066	3,943	287,207
Income (loss) before payment in lieu of tax	4,138	21,945	37,044	4,969	(241)	6,640	74,495
Payment in lieu of tax	-	-	-	3,083	64	14,052	17,199
Net income (loss)	$ 4,138	$ 21,945	$ 37,044	$ 1,886	$ (305)	$ (7,412)	$ 57,296
Total assets	$ 22,168,317	$ 7,792,393	$ 13,463,720	$ 814,770	$ 37,440	$ 9,055,452	$ 53,332,092
Total liabilities	$ 12,195,639	$ 9,315,761	$ 10,515,734	$ 844,269	$ 29,050	$ 17,005,515	$ 49,905,968

(1) Effective June 26, 2019, Retail Financial Services relaunched as Everyday Financial Services (EFS), to describe the changing work and focus of this group.
(2) Effective April 2019, EFS includes ATB 360. Results for the three months ended March 31, 2019, and June 30, 2018, were not restated for ATB 360. Previously ATB 360 was reported under B&Ag.
(3) Certain costs are allocated from the strategic service units (SSUs) to the areas of expertise. The allocation method, revised annually, creates fluctuations in ATB's segmented results.
(4) Results for the three months ended June 30, 2018, have been restated to include Alberta Private Client (APC) as part of ATB Wealth. Amounts presented will differ from the FY2019 first quarter results, as APC was previously reported under EFS.

16 Comparative Amounts

Certain comparative amounts have been reclassified to conform to the current period's presentation.